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British Newfoundland Corporation Limited - Annual Report 1967

AR29



British Newfoundland Corporation Limited

Officers

Chairman: HENRY BORDEN, C.M.G., Q.C.
Deputy Chairman: EDMUND L. DE ROTHSCHILD, T.D.
President & Chief Executive Officer: DONALD GORDON, C.M.G., LL.D., D.C.L., D.Sc.Com.
Vice-President & General Manager: M. F. NICHOLSON
Vice-President (Technical): DONALD J. McPARLAND, P. Eng.
Vice-President (Finance): E. G. LAMBERT, C.A., A.T.I.I.
Vice-President (Legal) & Secretary: C.T. MANNING, B.C.L.
Treasurer : M. C. BURNES, C.A.

Directors

* HENRY BORDEN, C.M.G., Q.C., Toronto, Ontario
Former President and Chairman,
Brazilian Traction Light & Power Company, Limited.

* SENATOR MAURICE BOURGET, P.C., Levis,
Quebec

* VAL DUNCAN, O.B.E., London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

G. PETER FLECK, New York, U.S.A.
Chairman, Amsterdam Overseas Corporation;
New Court Securities Corporation

B. C. GARDNER, M.C., Montreal, Quebec
President, Canafund Company, Limited

J. GEORGES-PICOT, K.B.E., Paris, France
Chairman of the Board and Managing Director
Compagnie Financière de Suez et de l'Union
Parisienne

* DONALD GORDON, C.M.G., LL.D., D.C.L.,
D.Sc.Com., Westmount, Quebec
Chairman, Churchill Falls (Labrador) Corporation
Limited and President and Chief Executive Officer,
British Newfoundland Corporation Limited

* SAM HARRIS, New York, U.S.A.
Senior Partner of Strasser, Spiegelberg, Fried & Frank

J. H. MOWBRAY JONES, D.Eng.

Montreal, Quebec
Director, Bowater Paper Corporation Limited, London

P. L. DE LASZLO, O.B.E., London, England
Director, The English Electric Company Limited

* DONALD J. McPARLAND, P.Eng., Westmount,
Quebec
President and Chief Executive Officer, Churchill
Falls (Labrador) Corporation Limited;
Vice-President, British Newfoundland Corporation
Limited; President, Twin Falls Power Corporation
Limited

T. R. MOORE, Quebec City, Quebec
President and Chairman of the Board, The Price
Company, Limited

* M. F. NICHOLSON, Montreal, Quebec
Vice-President & General Manager,
British Newfoundland Corporation Limited

GORDON F. PUSHIE, St. John's, Newfoundland,
Industrial Consultant

* EDMUND L. DE ROTHSCHILD, T.D., London,
England
Senior Partner of N. M. Rothschild & Sons

PHILIP SHELBOURNE, London, England
Partner of N. M. Rothschild & Sons

H. GREVILLE SMITH, C.B.E., Montreal, Quebec
President, Canadian International Investment Trust
Limited

* ARTHUR S. TORREY, Montreal, Quebec
Chairman, Pitfield, Mackay, Ross & Company Limited

**Member of the Executive Committee.*

*Les personnes intéressées peuvent
se procurer la version française
de ce rapport annuel en
s'adressant au service des
Relations publiques,
British Newfoundland
Corporation Limited,
One Westmount Square,
Montréal 6, P.Q.*

REGISTERED OFFICE

1 Viking Road
St. John's, Newfoundland

EXECUTIVE OFFICE

One Westmount Square
Montreal 6, Quebec

SUBSIDIARY COMPANIES

British Newfoundland Exploration Limited
Churchill Falls (Labrador) Corporation Limited
Little Deer Corporation Limited

ASSOCIATED COMPANY

Twin Falls Power Corporation Limited

AUDITORS

Peat, Marwick, Mitchell & Co
Montreal, Quebec

BANKERS

Bank of Montreal
N. M. Rothschild & Sons
London, England

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company
St. John's, Newfoundland
Montreal, Quebec
Toronto, Ontario

COMMON SHARES LISTED

Montreal Stock Exchange

*Cover: Vertical air photograph
of Company's Whalesback copper
mine near Springdale,
Newfoundland, shows mine and
mill buildings and tailings
disposal on bed of former lake.
Copper content from tailings
gives small pond its aqua color.*

Foreword from the President



The year 1967 saw progress in the affairs of British Newfoundland Corporation Limited and particularly in the affairs of its principal subsidiary Churchill Falls (Labrador) Corporation Limited.

This year for the first time a separate report with financial statements for Churchill Falls (Labrador) Corporation Limited is being circulated to the shareholders. This is being done in view of the widespread public interest in the great hydro-electric power project in which that company is engaged. Consequently reference to the Churchill Falls project appears in this report in a condensed form, as it is covered in greater detail in the enclosed separate report.

Through your Company's subsidiaries, Churchill Falls (Labrador) Corporation Limited and British Newfoundland Exploration Limited (Brinex), the development, production and sale of hydro-electric power, and the exploration for and the development of mineral resources are being conducted.

Exploration activities were expanded both on the mainland in Labrador and on the island of Newfoundland. The Whalesback Mine continued to operate at projected tonnage levels and enjoyed relatively high copper prices. Despite a lower

grade of ore mined, the cash flow was adequate to finance the exploration activity of Brinex and repay the balance of the bank indebtedness which had been incurred to bring this property into production.

During 1967, some reorganization in the management and structure of Brinco has taken place, largely as a result of increased activities on the Churchill Falls project, and as a groundwork for expanding the exploration activities of Brinex in the future, both on its own and in joint venture with others.

In 1968 the increasing tempo of construction of the Churchill Falls project, coupled with the major financing required to see it to completion, promises a year of unprecedented activity and challenge in the affairs of the Company.

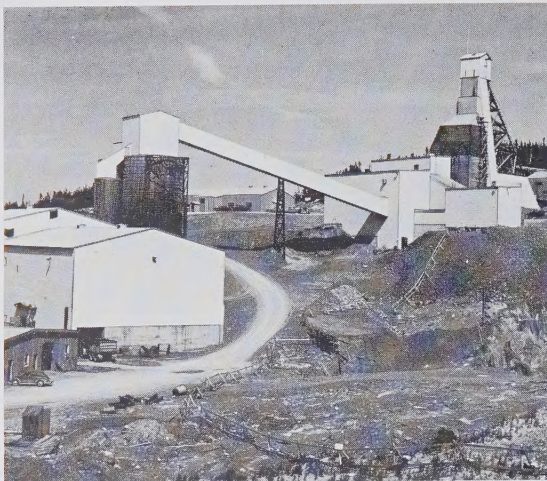
The Executive Offices of your Company, together with those of its subsidiary and associated companies, have been moved to One Westmount Square, Montreal 6.

A handwritten signature in dark ink, appearing to read 'D. Gordon', with a stylized, sweeping flourish at the end.

DONALD GORDON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Montreal, February 14, 1968.

Report of the Directors to the Shareholders

*Whalesback mine and mill
in Newfoundland,
a producer of copper
concentrate since 1965,
processed an average of
941 tons per milling day in 1967.*



Churchill Falls (Labrador) Corporation Limited

On July 17, the ground breaking ceremony, performed by Premier Joseph Smallwood of Newfoundland, officially marked the commencement of construction of the Churchill Falls power development. Expenditures on the power development (the Project) during the year were \$24,747,580.

To finance construction expenditures incurred prior to the completion of overall financial arrangements for the Project, a public issue of common shares by Churchill Falls (Labrador) Corporation Limited, (Churchill Falls), was planned in the autumn. Due to market conditions at the time, this plan was not implemented, and instead the existing four shareholders, including your Company, purchased, pro rata to their respective interests in Churchill Falls, 2,500,000 shares of Churchill Falls at \$15 per share, thereby making available \$37.5 million to that Corporation. On October 31, the Province of Newfoundland purchased from your Company 304,311 common shares of Churchill Falls at \$15 per share. As a result of this sale your Company's holding in Churchill Falls was reduced from 68.3% to 63.3%. This was in conformity with Newfoundland's desire to increase its shareholding in Churchill Falls.

As part of the equity financing operation, advances to Churchill Falls of \$2 million made by its shareholders in December 1966 were converted into common shares of Churchill Falls at \$15 per share. Of the purchase price of \$15 for each of the new 2,500,000 shares issued by Churchill Falls, \$1.50 was paid in cash and the balance remained payable at any time upon call by Churchill Falls.

During the year under review, the minority shareholders in Churchill Falls made interest

bearing advances to that company in an amount equal to the amount unpaid and uncalled on their partly paid shares and your Company made similar advances to Churchill Falls of \$2,006,902. Your Company expects to make further advances to Churchill Falls in 1968 in anticipation of future calls on its holding of 1,705,175 partly paid shares. These anticipated future advances represent an aggregate commitment of \$21 million. Interim bank borrowing to finance this commitment of your Company to Churchill Falls has been arranged.

During 1967, the financing of the expansion, estimated to cost \$11,700,000, of the hydroelectric plant of Twin Falls Power Corporation (Twin Falls) was completed. Of the cost, 25% is to be financed from the cash resources of Twin Falls and the balance to be provided from the sale of up to U.S.\$10 million principal amount of Series B 6¼ % first mortgage bonds arranged in the United States, of which U.S.\$7 million principal amount were sold on December 15, 1967. Twin Falls continued to provide, by way of rental payments, fees and dividends, the bulk of the revenue of Churchill Falls.

British Newfoundland Exploration Limited (Brinex)

Brinex's net earnings for the year were \$114,623 compared with \$1,350,476 in 1966. The price of copper remained at a high level through 1967 and the reduction in profits was almost entirely due to a lower grade of ore mined at the Whalesback Mine. Cash flow was, however, adequate to finance all exploration and capital requirements and to repay the balance of bank indebtedness which, at the commencement of the year, amounted to \$550,000. After repayment of bank indebtedness, working capital was increased by \$927,293.

Exploration

The rate of exploration expenditures has been steadily increasing during the last four years and in 1967 amounted to \$852,000 including Joint Venture partners' expenditures. This is indicative of the increasing work being concentrated in favorable areas as better knowledge of Brinex's concessions becomes available.

In Labrador, work continued to be concentrated largely in the coastal area of Makkovik on the eastern end of a mineral bearing belt which has now been established over some 200 miles westwards along the Grenville Front. Covering part of this favorable belt towards the west, Brinex acquired, during the year, the Seal Lake mineral concession area of some 3,600 square miles where previous exploration by others had indicated copper mineralization and areas of radioactivity. At Makkovik, work continued in the two main areas under Joint Ventures — one with Cominco Limited and the other with West German interests

Airborne geophysical surveys play an important part in Brinex' exploration for mineral deposits. This Otter aircraft carries sensing equipment in wing pods.



Copper trapped in foam rises to top of flotation cells in Whalesback mill.

A geologist examines diamond drill cores from molybdenite prospect near Cape Makkovik, Labrador.



A technician at geochemical laboratory at Springdale uses sophisticated instruments to determine within a few parts per billion the metal content of water, soil and rock samples.

headed by Metallgesellschaft A.G. A substantial program of airborne geophysical surveys, with special emphasis on uranium search, was conducted in these general areas and exploration was reactivated on the Kitts uranium prospect where further diamond drilling will be done in 1968.

Legislation adopted by the House of Assembly in Newfoundland during the year authorized an amendment to the Company's principal concession agreement with the Government of Newfoundland. This agreement, when executed, will have the effect of extending the term of the mineral concession by 10 years to 1985 and will also include therein an additional area of some 12,000 square miles located in the Upper Churchill River watershed.

Newfoundland

12,778 feet of diamond drilling was conducted on Pilley's Island. In the course of the drilling and as a result of summer prospecting, a new occurrence of zinc copper mineralization was discovered about 4,000 feet away from the old mine workings where most of the exploratory drilling had been concentrated to date. The widespread mineralization indicated gives encouragement to continuing exploration in this area in 1968. In other areas, six copper prospects were examined and 25,000 feet of diamond drilling was done.

Mining

The Whalesback Mine plant recorded 339 milling days during the year and processed 658,285 tons of ore for an average of 1,941 tons per milling day. Copper production totalled 10,403,571 pounds contained in concentrates.

The grade of ore treated averaged .85% copper. This low grade is the result of continued high waste dilution. It is apparent that because of the ground conditions at Whalesback, high waste dilution is to be anticipated using bulk mining methods but these methods are justified in view of the low mining and milling costs obtained. Steps are in hand to achieve a modest increase in ore production in 1968 for the purpose of increasing the rate of copper production and minimizing unit costs.

Accounting and Financial

In addition to the Consolidated Accounts of the Company for the year 1967, financial statements of Churchill Falls, Twin Falls and Brinex for the same period are included for the information of shareholders.

In May 1967, the shareholders of the Company approved an Arrangement, subsequently sanctioned by the Supreme Court of Newfoundland, which authorized the conversion of the Founders Shares, which carried 10 votes per share, into Common Shares on the basis of 21 Common Shares for 20 Founders Shares. Consequently, the Common Shares presently constitute the only class of shares in the Company and each share carries the right to one vote.

During the year, Wood Gundy Securities Limited was appointed a financial advisor to the Company. The financial advisors to the Company now are:

Morgan Stanley & Co., New York, U.S.A.
Wood Gundy Securities Limited, Toronto,
Canada

N. M. Rothschild & Sons, London, England
Pitfield, Mackay, Ross & Company Limited,
Montreal, Canada

The staffs of all companies in the Brinco group are to be congratulated on maintaining a steady record of achievement in what has been a very difficult year. A special note of commendation is due all members of the staff of Churchill Falls who have borne a particularly heavy work load in all areas.

Chairman

Henry Brinco

President

Alfredson

Montreal, February 14, 1968.

British Newfoundland Corporation Limited and Subsidiary Companies

Consolidated Balance Sheet as at December 31, 1967

Assets

	1967	1966
Current assets:		
Cash and short term deposits	\$ 2,121,449	\$ 2,689,353
Accounts receivable (including \$199,456 from affiliate)	1,017,228	1,027,852
Supplies and prepaid expenses	385,476	403,773
Total current assets	3,524,153	4,120,978
Special refundable tax	140,531	113,340
Investment in shares of Twin Falls Power Corporation Limited, at cost (note 1)	2,500,000	2,500,000
Land, buildings and equipment, at cost less accumulated depreciation (note 2)	3,072,089	3,622,732
Churchill Falls power project, at cost less accumulated depreciation (note 2)	38,807,954	14,868,348
Preproduction expenditures less amounts written off (note 2)	1,856,908	2,350,622
Exploration expenditures less amounts written off (note 2)	4,849,875	4,654,755
Expenditures on mineral, timber and water power rights and concessions less amounts written off (note 2)	437,983	437,947
	49,024,809	25,934,404
Organization and financing expenses	1,001,551	1,001,551
	\$56,191,044	\$33,670,273

Liabilities

Current liabilities:		
Accounts payable	\$ 5,081,337	\$ 1,008,009
Bank loan	—	550,000
Accrued liabilities	431,304	83,428
Taxes payable	60,000	208,609
Total current liabilities	5,572,641	1,850,046
Minority shareholders' interest in subsidiary:		
Advances bearing interest at 6¾ % per annum	10,730,138	559,120
Equity	9,061,183	6,156,708
	19,791,321	6,715,828
Shareholders' equity:		
Capital stock (note 3)	22,935,950	22,935,950
Retained earnings	2,245,213	1,906,595
Capital surplus arising on consolidation	5,645,919	261,854
	30,827,082	25,104,399
Commitments and contingent liabilities (note 4)		
	\$56,191,044	\$33,670,273

The accompanying notes are an integral part of the above consolidated balance sheet and should be read in conjunction therewith.

Approved on behalf of the Board:

DONALD GORDON, Director.

M. F. NICHOLSON, Director

British Newfoundland Corporation Limited and Subsidiary Companies

Consolidated Statement of Earnings and Retained Earnings for the Year Ended December 31, 1967

	<u>1967</u>	<u>1966</u>
Sales of concentrates	\$4,202,004	\$5,232,686
Revenue from management services:		
Affiliated company	241,974	75,000
Other	1,932	248,190
Rental of rights and facilities from affiliated company	<u>641,000</u>	<u>641,000</u>
	<u>5,086,910</u>	<u>6,196,876</u>
Operating and administrative expenses	2,509,847	2,556,602
Bank interest	22,294	—
Newfoundland rental	48,398	34,464
Depreciation and amortization	<u>2,451,977</u>	<u>2,312,810</u>
Operating profit for the year	54,394	1,293,000
Income from investments	23,162	135,647
Dividends from affiliated company	350,000	287,500
Interest on advances capitalized by subsidiary company	<u>23,011</u>	<u>—</u>
	450,567	1,716,147
Current income taxes (note 5)	<u>1,251</u>	<u>—</u>
Net earnings for the year	449,316	1,716,147
Amount attributable to the minority shareholders	<u>110,698</u>	<u>92,872</u>
Net earnings for the year attributable to the shareholders of the company	338,618	1,623,275
Retained earnings at beginning of year	<u>1,906,595</u>	<u>283,320</u>
Retained earnings at end of year	<u>\$ 2,245,213</u>	<u>\$ 1,906,595</u>

The accompanying notes are an integral part of the above consolidated statement of earnings and retained earnings and should be read in conjunction therewith.

British Newfoundland Corporation Limited and Subsidiary Companies

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1967

	<u>1967</u>	<u>1966</u>
Source of funds:		
From current operations		
Net earnings	\$ 449,316	\$1,716,147
Depreciation and amortization	<u>2,451,977</u>	<u>2,312,810</u>
	2,901,293	4,028,957
Issue of capital stock	—	80,000
Disposal of part interest in Churchill Falls (Labrador) Corporation Limited	4,564,665	—
Minority shareholders of Churchill Falls (Labrador) Corporation Limited		
Issue of capital stock	3,054,057	—
Advances	<u>10,730,138</u>	559,120
	<u>21,250,153</u>	<u>4,668,077</u>
Application of funds:		
Land, buildings and equipment, net	98,670	481,845
Churchill Falls power project	24,747,580	2,994,305
Exploration expenditures	696,096	484,974
Expenditures on mineral and water power rights and concessions, net	36	10,310
Special refundable tax	<u>27,191</u>	<u>113,340</u>
	<u>25,569,573</u>	<u>4,084,774</u>
Increase (decrease) in working capital	<u>\$(4,319,420)</u>	<u>\$ 583,303</u>

The accompanying notes are an integral part of the above consolidated statement of source and application of funds and should be read in conjunction therewith.

British Newfoundland Corporation Limited and Subsidiary Companies

Notes to the Consolidated Financial Statements as at December 31, 1967

(1) Principles of Consolidation:

- (i) The consolidated financial statements include the accounts of British Newfoundland Exploration Limited ("Brinex") and its subsidiary company and Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") on the basis of current holdings. 1966 comparative figures have been adjusted to the same basis.
- (ii) Churchill Falls holds voting control of Twin Falls Power Corporation Limited ("Twin Falls"), through its ownership of all the Class A shares which carry four votes per share but these shares represent only one-third of the shareholders' interest in Twin Falls and therefore its assets and liabilities have not been included in the consolidated financial statements.
Churchill Falls' share of the net earnings of Twin Falls for 1967 amounted to \$373,099 of which \$350,000 has been included in the financial statements as dividends.
Churchill Falls' share of the retained earnings of Twin Falls at December 31, 1967 was \$208,640, which is not reflected in the accounts.

(2) Capital Expenditures:

- (i) Churchill Falls power project.
In 1966 certain expenditures were charged to the Churchill Falls power project whereas in previous years similar items were treated as expenses. However, an additional amount of depreciation was provided so that the change in accounting treatment did not cause any change in earnings. In 1967 Churchill Falls' accounts were adjusted retroactively to put all years on the same basis as 1966. These retroactive adjustments did not affect retained earnings. The additional amount of depreciation provided was \$1,659,046.
- (ii) Brinex exploration expenditures.
Brinex commenced the amortization of its exploration expenditures in 1966. However, amortization has now been established at 10% per annum of the unamortized balance with effect retroactively from January 1, 1966, reducing the amount written off in that year by \$59,085. The 1966 comparative figures have been adjusted accordingly.
- (iii) Cost and accumulated depreciation and amortization

	Cost	Depreciation and amortization	Net
Land, buildings and equipment	\$ 4,517,349	\$ 1,445,260	\$ 3,072,089
Churchill Falls power project	42,231,079	3,423,125	38,807,954
Preproduction expenditures	2,950,565	1,093,657	1,856,908
Exploration expenditures	5,851,157	1,001,282	4,849,875
Expenditures on mineral, timber and water power rights and concessions	536,546	98,563	437,983

(3) Capital Stock:

- (i) By Order of the Supreme Court of Newfoundland, the share capital of British Newfoundland Corporation Limited ("Brinco"), was reduced as of June 28, 1967 by cancelling 12 issued and outstanding Founders Shares and the remaining 3,175,800 issued and outstanding Founders Shares were subdivided and changed into 3,334,590 Common Shares without nominal or par value on the basis of 21 Common Shares for each 20 Founders Shares.
- (ii) As at December 31, 1967:
Common Shares without nominal or par value

	Shares	Amount
Authorized	19,999,988	
Issued	12,118,631	\$22,935,950

- (iii) At December 31, 1967, 225,000 Common Shares were reserved for the purpose of granting options to officers and employees and, at the same date, options granted in prior years on 5,000 Common Shares at \$4 per share exercisable until August 24, 1970 had not been taken up.

(4) Commitments and Contingent Liabilities:

- (i) Brinco has subscribed for 1,705,175 Common Shares in Churchill Falls at \$15 per share of which \$1.50 was paid on allotment, the balance being uncalled at December 31, 1967 but being callable at any time thereafter. Brinco has reserved the right to advance the amounts uncalled from time to time to Churchill Falls at 6¾% per annum. To provide funds for these advances, Brinco has arranged a line of credit with a Canadian chartered bank for \$21 million at 6¾% per annum against which it has pledged its shares in Brinex and Churchill Falls.

- (ii) At December 31, 1967, Churchill Falls had entered into contracts related to the Churchill Falls power project of which the uncompleted portion amounted to \$114 million currently estimated to be payable (subject to certain conditions) as follows:

1968	\$30 million	1971	\$15 million	1974	\$6 million
1969	21 million	1972	13 million	1975	3 million
1970	19 million	1973	6 million	1976	1 million

- (iii) In 1953 the Government of Newfoundland and Brinco entered into an agreement ("Principal Agreement") whereby Brinco was granted options on extensive water power, mineral and woodland concessions within the Province of Newfoundland.

Under the terms of the Principal Agreement, as amended, Brinco is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of Brinco and its subsidiaries resulting from the operation of the concessions and rights granted by the Principal Agreement. This obligation of Brinco does not apply insofar as the consolidated profits of Churchill Falls are concerned.

Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 and amendments thereto Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).

- (iv) The liabilities of Churchill Falls and Brinex under their pension plans for past services are being paid by annual instalments over 23 years. The payments for past service in 1967 were \$6,300. The total unfunded liability for past service is \$94,800.
- (5) Income Taxes:
Provision for income taxes reflects the application of accumulated tax losses and the exemption of the Whalesback mine of Brinex from tax until August 31, 1968.
- (6) Directors' Remuneration:
Remuneration paid to Directors of Brinco in 1967 by Brinco and its subsidiaries amounted to \$78,167.
- (7) Comparative Figures:
The 1966 comparative figures reflect retroactive adjustments to conform with the presentation in 1967. Adjustments additional to those detailed in notes 1 and 2 were not significant.

	Retained earnings	Capital Surplus arising on consolidation
Original 1966	\$1,836,466	\$1,708,498
Adjustments:		
Minority interest in Churchill Falls	(28,685)	(1,446,644)
Brinex amortization	59,085	—
Miscellaneous	39,729	—
Adjusted 1966	\$1,906,595	\$ 261,854

Auditors' report to the Shareholders

We have examined the consolidated balance sheet of British Newfoundland Corporation Limited and subsidiaries as at December 31, 1967 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change referred to in note 2 to the consolidated financial statements, with which we concur.

Montreal, Que.
January 29, 1968

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

British Newfoundland Exploration Limited and Subsidiary Company

Consolidated Balance Sheet as at December 31, 1967

Assets	<u>1967</u>	<u>1966</u>
Current assets:		
Cash and short-term deposits	\$ 653,130	\$ 167,370
Accounts receivable	492,491	676,570
Supplies and prepaid expenses	384,978	400,885
Total current assets	<u>1,530,599</u>	<u>1,244,825</u>
Special refundable tax	<u>117,203</u>	<u>87,889</u>
Land, buildings and equipment, at cost less accumulated depreciation (note 2)	3,050,720	3,594,110
Preproduction expenditures less amounts written off (note 2)	1,856,908	2,350,622
Exploration expenditures less amounts written off (note 2)	4,849,975	4,654,855
	<u>9,757,603</u>	<u>10,599,587</u>
Organization expenses	2,892	2,892
	<u>\$11,408,297</u>	<u>\$11,935,193</u>
Liabilities		
Current liabilities:		
Accounts payable (including \$324 to affiliate)	\$ 280,636	\$ 294,971
Bank loan	—	550,000
Accrued liabilities	54,609	5,867
Taxes payable	60,000	185,926
Total current liabilities	<u>395,245</u>	<u>1,036,764</u>
Advances from British Newfoundland Corporation Limited	<u>9,160,374</u>	<u>9,160,374</u>
Shareholders' equity:		
Capital stock:		
Authorized — 50,000 shares without nominal or par value		
Issued — 5,000 shares fully paid	5,000	5,000
Retained earnings	1,847,678	1,733,055
	<u>1,852,678</u>	<u>1,738,055</u>
	<u>\$11,408,297</u>	<u>\$11,935,193</u>

The accompanying notes are an integral part of the above consolidated balance sheet and should be read in conjunction therewith.

Approved on behalf of the Board:

M. F. NICHOLSON, Director

C. T. MANNING, Director

British Newfoundland Exploration Limited and Subsidiary Company

Consolidated Statement of Earnings and Retained Earnings for the Year Ended December 31, 1967

	1967	1966
Sales of concentrates	\$ 4,202,004	\$ 5,232,686
Operating and administrative expenses	2,407,578	2,174,435
Depreciation and amortization (note 2)	1,639,803	1,607,106
Mining taxes	40,000	100,669
	<u>4,087,381</u>	<u>3,882,210</u>
Operating profit and net earnings for the year	114,623	1,350,476
Retained earnings at beginning of year (note 6)	1,733,055	382,579
Retained earnings at end of year	<u>\$ 1,847,678</u>	<u>\$ 1,733,055</u>

The accompanying notes are an integral part of the above consolidated statement of earnings and retained earnings and should be read in conjunction therewith.

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1967

	1967	1966
Source of funds:		
From current operations:		
Net earnings	\$ 114,623	\$ 1,350,476
Depreciation and amortization	1,639,803	1,607,106
	<u>1,754,426</u>	<u>2,957,582</u>
Application of funds:		
Land, buildings and equipment, net	101,723	476,151
Exploration expenditures	696,096	484,974
Special refundable tax	29,314	87,889
	<u>827,133</u>	<u>1,049,014</u>
Increase in working capital	<u>\$ 927,293</u>	<u>1,908,568</u>

The accompanying notes are an integral part of the above consolidated statement of source and application of funds and should be read in conjunction therewith.

British Newfoundland Exploration Limited and Subsidiary Company

Notes to the Consolidated Financial Statements as at December 31, 1967

(1) Principles of Consolidation:

The consolidated financial statements of British Newfoundland Exploration Limited ("Brinex"), include the assets and liabilities of Little Deer Corporation Limited ("Little Deer"), a wholly owned subsidiary incorporated by letters patent July 19, 1966. Little Deer has had no earnings to date.

(2) Capital Expenditures:

(i) Exploration expenditures —

Brinex commenced the amortization of its exploration expenditures in 1966. However, amortization has now been established at 10% per annum of the unamortized balance with effect retroactively from January 1, 1966 thereby reducing the amount written off in 1966 by \$59,085. The 1966 comparative figures have been adjusted accordingly.

(ii) Cost and accumulated depreciation and amortization —

	Cost	Depreciation and amortization	Net
Land, buildings and equipment	\$4,429,998	\$1,379,278	\$3,050,720
Preproduction expenditures	2,950,565	1,093,657	1,856,908
Exploration expenditures	5,851,257	1,001,282	4,849,975

(3) Income Taxes:

No provision for income taxes has been made to date because the operation is exempt from tax as a new mine until August 31, 1968.

(4) Pension Liability:

Brinex's liability under its pension plan for past services is being paid by annual instalments over 23 years. The payment for past service in 1967 was \$2,200. The total unfunded liability for past service is \$33,200.

(5) Directors' Remuneration:

Remuneration paid to Directors in 1967 amounted to \$53,650.

(6) Comparative figures:

As a result of the change in the basis of amortization referred to in note 2(i) above and an additional provision for mining taxes applicable to 1966 and 1965 of \$13,119 net, the retained earnings at December 31, 1966 have been increased by \$45,966.

Auditors' report to the Shareholders

We have examined the consolidated balance sheet of British Newfoundland Exploration Limited and subsidiary company as at December 31, 1967 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiary company at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.
January 29, 1968.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

